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UNCLAS SECTION 01 OF 02 SINGAPORE 001059

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E.O. 12958: N/A  
TAGS: [EFIN](#) [ECON](#) [SN](#)

SUBJECT: GIC ISSUES FIRST ANNUAL REPORT IN BID FOR TRANSPARENCY

11. Summary: In a bid to provide greater transparency and allay global concerns over sovereign wealth funds, Singapore's state-owned Government Investment Corporation (GIC) issued its first annual report offering some details on the operations of one of the world's largest and more secretive investors. The report falls far short of full transparency, and does not provide financial statements or even the size of the fund. The report reveals that GIC's assets are focused primarily in developed markets, with the U.S. as the biggest single destination and a portfolio that has moved from safer fixed-income assets to alternative investments over time. The real (inflation-adjusted) annual return over the past 20 years was 4.5 percent. With a substantial hoard of cash, GIC may be looking to invest in distressed assets in the United States. End Summary.

12. On September 23, GIC issued its first annual report in its 27-year history, disclosing a reasonable but not stellar 4.5 percent real average annual return over the past 20 years. The GIC is a sovereign wealth fund (SWF), investing a portion of Singapore's fiscal surpluses overseas. The reports will now be made annually. With this report GIC joins Singapore's other SWF Temasek Holdings which began issuing annual reports in 2004.

Opening the books to keep markets open  
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13. GIC said it issued the report in order to allay concerns that are circulating in Europe and the United States about potential political goals of sovereign wealth funds. The extra transparency could also serve to head off any regulations that might restrict its investments abroad. In the report's opening statement, GIC's Deputy Chairman Tony Tan assured the investment community and the countries in which it invests that the SWF's activities "have only one purpose - financial return." The report goes on to state that the GOS "neither directs nor interferes in the company's investment decisions."

14. However, the report falls far short of full transparency, declining to reveal detailed financial statements or even the exact size of the fund. GIC did not provide any detail on the size of assets under its management, saying that the GOS did not view it in the national interest to do so. The report says only that GIC's net assets are "well over US\$100 billion", a figure GIC has used over the past decade. Outside estimates place the size at roughly \$300-400 billion.

15. Nevertheless, the report does provide some insight into GIC's assets, showing a trend toward investment in riskier markets and alternative asset classes (see table in para 9). Only 26 percent of GIC's assets are currently in fixed-income investments like bonds, down from over 75 percent when the fund was first established. Investments have since spread into riskier hedge funds, real estate, private equity and venture capital. GIC has also diversified into emerging markets, although 80 percent of its assets are still held in the United States, Europe or Japan. The U.S. is the largest single destination for GIC investment with a 34 percent share, including GIC's USD 6.9 billion investment in Citigroup in January.

¶6. GIC's report showed a rolling average annual real return of 4.5 percent over the past 20 years, or 5.8 percent in nominal terms. GIC attributed what it sees as respectable returns to sustained growth and declining inflation in the 1980s and 1990s, a shift in assets from fixed-income to higher performing assets, and active management of the funds. However, the Asian financial crisis in the late 1990s, the technology bust of 2001 and the recent credit crisis have negatively impacted balance sheets. The current figure is considerably lower than the 9.5% figure cited in 2006 by Chairman (and former PM) Lee Kuan Yew as the return for the first 25 years of GIC's existence. A chart of the rolling 20-year return showed a decline of two percentage points since 2005. The decline may simply reflect the exclusion of GIC's high returns in early years which are no longer included in the rolling average, but may also indicate some serious financial losses in the past few years. GIC has taken heat from Singaporeans for multi-billion dollar investments in Citigroup and Swiss bank UBS in the past year whose share prices have since dropped sharply in value.

¶7. In an apparent attempt to personalize GIC for Singaporeans whose funds GIC manages, 20 pages of the 48-page report are dedicated to introducing the members of GIC's various boards of directors and dozens of managing directors. Only 45 percent of GIC's approximately 1000 staff is Singaporean, with the rest from overseas, including 12 percent from the United States. The report also discloses that one-third of the assets are handled by external managers, particularly for funds investing in real estate funds, private equity funds, bond funds, index funds and hedge funds.

New U.S. Investments?  
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¶8. GIC's report notes a "more challenging investment environment" going forward with risks from macroeconomic imbalances and rising commodity prices, but also emergent opportunities. At a press conference announcing the release of the report, Group Chief Investment Officer Ng Kok Song said that the credit crunch in the United States "would present very interesting opportunities in impaired assets." With seven percent of its holdings in cash, approximately USD 20 billion, GIC is well-placed to pick up distressed assets. Deputy Chairman Tan warned, however, that the worst of the crisis may not be over and GIC would still be prudent in its investments.

#### ¶9. Asset Mix of GIC

	%	%
Public Equities	44	
Developed Markets	34	
Emerging Markets	10	
Fixed Income	26	
Nominal Bonds	20	
Inflation-Linked Bonds	6	
Alternatives	23	
Real Estate	10	
Private Equity, VC & Infrastructure	8	
Absolute Return Strategies	3	
Natural Resources	2	
Cash & Others	7	7
Total	100	100

#### ¶10. Geographical Distribution of Investments

Americas	40	
United States	34	
Others	6	
Europe	35	
United Kingdom	8	
France	5	
Germany	3	
Ireland	3	

Italy	3		
Switzerland		3	
Others	10		
Asia	23		
Japan	11		
China/Hong Kong			4
South Korea		2	
Taiwan	2		
Others	4		
Australia		2	2
Total	100	100	

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